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SUBJECT: TURKEY REVITALIZES ITS PETROLEUM CODE

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Sensitive But Unclassified. Please handle accordingly.

11. (SBU) SUMMARY: In a long-awaited good news story for its investment environment, Turkey finally passed a new petroleum code, intended to provide more attractive incentives to encourage foreign investment in oil and gas exploration and production. The U.S. company Toreador, which will start production in March at a small natural gas field on the Black Sea, described the new law as providing appropriate incentives to attract foreign companies given that Turkey does not enjoy a hydrocarbon-rich geology. Toreador gave the U.S. Embassy credit for the success; the Ambassador's letter to the Prime Minister urging passage came at a critical point to finally push the law onto the parliament's agenda. The company was happy with the new law, even though the Finance Ministry whittled away some elements from earlier drafts. Meanwhile, Turkish and Turkey-based U.S. companies continue to explore oil and gas opportunities in northern Iraq. End Summary.

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Long-Awaited New Petroleum Law Passes  
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12. (SBU) While the electricity sector faces woes from looming supply shortages to delays in privatization and inability to liberalize prices (refs), the petroleum sector with little fanfare achieved an important "open for business" step forward. American Toreador's country manager Roy Barker thanked the Embassy for its role in finally gaining passage of the new petroleum law, which had been pending for four years. Barker summarized the new law as up to international standards, appropriate for a "difficult" place; i.e., not Norway. He cited these positive elements:

- Steep reduction in royalty payments, particularly for offshore licenses, with various steps depending on level of production;
- Clarification and ease of licensing, particularly for offshore development;
- Ease of import of oil field equipment;
- Longer license terms;
- More advantageous repatriation of registered capital (an issue of

particular importance to Toreador).

13. (SBU) Barker observed that the Finance Ministry hacked some other important provisions at the last minute, such as reducing the loss carry-forward period, but he expressed satisfaction with the final product. The Toreador rep noted that Turkish state oil company TPAO maintained its privileged position, but foreign companies would enjoy greater rights and protections.

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American Domestic Natural Gas Good News  
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14. (SBU) Barker stated that Toreador's new shallow Black Sea natural gas field at Akcakoca would begin production in March. He expected Prime Minister Erdogan to attend the opening ceremony and hoped for Embassy representation. Barker noted that this was an American investment good news story. Although production would be a modest 2-4 million cm per day, it was welcome given Turkey's overwhelming dependence on imported natural gas. It could cushion a small part of domestic supply or contribute in a modest way to export to Greece. Barker stated that the Akcakoca project totaled \$330 million in investment, with partners TPAO and American Stratic. He noted that Toreador was continuing to drill promising exploratory wells at additional locations. While enthusiastic about their success, Barker admitted that Toreador would likely continue its lawsuits on contention over repatriation of profits and a disputed adjacent license with TPAO.

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Chevron Perseveres in the Southeast  
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15. (SBU) Chevron Country Manager John Connor also expressed satisfaction at passage of the long awaited new petroleum law. He stated that the Energy Minister was very eager for companies to

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announce discoveries in the runup to the election. Chevron has experienced great difficulty in gaining access to its Silopi license in the Cudi Mountains in the southeast near Iraq. After finally gaining approval to commence seismic work last spring, after a few months work, the company suffered the death of a local employee from a PKK-related IED. The company ceased operations there, but still completed its work requirement under its license when partner Perenco drilled a small dry well on the safer side of Silopi. Given the Ministry's eagerness to facilitate exploration and to not admit defeat from the PKK threat, local partner TPAO will recommence seismic work in the mountains next spring. Having acquired Unocal's interests, Chevron is now a partner in BTC and was a passive partner in the BP-operated deep-water exploration in the eastern Black Sea, which unfortunately did not achieve successful results.

16. (SBU) Other small American companies are active in exploration in Turkey, including Aladin and Terralliance. Terralliance has just opened an office in Ankara to support its operations.

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GAZING AT IRAQ  
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17. (SBU) Even as the new law encourages more domestic oil and gas exploration (many Turks dream that Turkey floats on an unfound sea of oil), Turkish, American, and other companies are casting a longing eye at developments across the border in Iraq, where progress is reported on its new Hydrocarbon Law. Along with Norwegian DNO, Turkish companies Genel Enerji and Petoil (which has farmed out interests to American partners Prime and Calibre) have signed licenses with the KRG and have announced discoveries. In a recent meeting with the Embassy, Petoil said that the two Turkish companies had tacit GOT approval to establish a foothold in northern Iraq, whereas state companies do not yet have a green light from the GOT. Egress for potential oil production in northern Iraq is still unclear. The logical option of unused capacity in the Kirkuk-Ceyhan pipeline will likely have to await approval by both Baghdad and Ankara. Larger companies like Chevron are awaiting clarity that will presumably come with passage of the new hydrocarbon law.

Chevron is interested in the geology across the border from its  
Silopi license.  
WILSON